

**Supporting Statement for the
Uniform Application for Municipal Securities Principal or Municipal Securities
Representative Associated with a Bank Municipal Securities Dealer (FR MSD-4; OMB No.
7100-0100) and the
Uniform Termination Notice for Municipal Securities Principal or Municipal Securities
Representative Associated with a Bank Municipal Securities Dealer
(FR MSD-5; OMB No. 7100-0101)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, without revision, two municipal securities dealer forms:

- the Uniform Application for Municipal Securities Principal or Municipal Securities Representative Associated with a Bank Municipal Securities Dealer (FR MSD-4; OMB No. 7100-0100)
- the Uniform Termination Notice for Municipal Securities Principal or Municipal Securities Representative Associated with a Bank Municipal Securities Dealer (FR MSD-5; OMB No. 7100-0101)

These mandatory information collections are submitted on occasion by state member banks, bank holding companies, and foreign dealer banks that are municipal securities dealers. The FR MSD-4 collects information, such as personal history and professional qualifications, on an employee whom the bank wishes to assume the duties of a municipal securities principal or representative. The FR MSD-5 collects the date of, and reason for, termination of such an employee. The annual reporting burden for these reports is estimated to be forty-eight hours. A copy of the reporting form and instructions is attached.

Background and Justification

Pursuant to the Securities Acts Amendments of 1975 (P.L. 94-29), the Congress imposed a comprehensive federal regulatory structure on the municipal securities industry. A new rulemaking body, the Municipal Securities Rulemaking Board, was created as a self-regulatory organization (SRO) to prescribe rules for the municipal securities industry with respect to transactions in municipal securities. Rules of the MSRB take effect only after approval by the Securities Exchange Commission (SEC). Although MSRB rules apply to all municipal securities dealers, the MSRB does not have authority to enforce its rules. For enforcement purposes the Securities Exchange Act of 1934 (15 U.S.C. §78a et seq.; "the 1934 Act") designates "appropriate regulatory agencies" for specified municipal securities dealers. The Federal Reserve is the appropriate regulatory agency for state member banks and bank holding companies, and certain of their subsidiaries, departments, and divisions that are municipal securities dealers. Although the 1934 Act does not specify the appropriate regulatory agency for municipal securities dealer activities of foreign banks, uninsured state branches or state agencies of foreign banks, commercial lending companies owned or controlled by a foreign bank, or Edge

Act corporations (collectively referred to as "foreign dealer banks"), the Division of Market Regulation of the SEC has agreed that the Federal Reserve Board should examine the municipal securities dealer activities of foreign dealer banks.¹

MSRB rule G-7, "Information Concerning Associated Persons," requires persons who are or seek to be associated with municipal securities dealers as municipal securities principals (persons performing supervisory functions) or representatives (persons engaged in underwriting, trading, or sales of municipal securities or furnishing financial advice to issuers in connection with the issuance of municipal securities) to provide certain background information to the municipal securities dealers. The rule also requires municipal securities dealers to obtain and report this information. Generally, the information required to be disclosed by MSRB rule G-7 relates to employment history and professional background including any disciplinary sanctions and any claimed basis for exemption from MSRB examination requirements. MSRB rule G-7 provides that the information may be provided on the Form MSD-4 for a bank dealer.

The staffs of the federal bank regulatory agencies, in consultation with the MSRB, jointly drafted Forms MSD-4 and MSD-5. Subsequently, each agency adopted the joint forms in 1977.

Form MSD-4 is the source document for initial information submitted to each agency. Form MSD-5 is the source document for updating the information when an associated person's employment is terminated for any reason. Information collected in Form MSD-4 and Form MSD-5 may be routinely used by the appropriate regulatory agency: (1) to refer information indicating a potential violation of law to another government agency or SRO; (2) to aid in the resolution of any proceeding in which the federal securities laws or banking laws are at issue; (3) to obtain additional information from a government agency or SRO concerning the applicant's qualifications; or (4) to respond to a government agency or SRO request for information needed to issue a license or for similar action affecting the applicant.

The Department of the Treasury rules covering government securities broker and dealer activities became effective in July 1987. The specific rule that deals with associated persons of government securities brokers and dealers who are also associated persons of a municipal securities dealer allows the associated persons to fulfill the notification requirements by filing a single form, the Form MSD-4 (17 CFR 400.4). This was done to eliminate the need to file both Form MSD-4 and the Department of the Treasury Form G-FIN-4 (Disclosure Form for Person Associated with a Financial Institution Government Securities Broker or Dealer). These two forms require almost identical information. Likewise, the Form MSD-5 may also be used in lieu of filing both Form MSD-5 and Form G-FIN-5 to terminate an associated person.

¹ Letter from Catherine McGuire, Chief Counsel, SEC's Division of Market Regulation, to Laura M. Homer, Assistant Director, Federal Reserve Board's Division of Banking Supervision and Regulation, June 14, 1994.

Description of Information Collection

The FR MSD-4 is the source document for initial information submitted to each regulatory agency; it collects information, such as personal history and professional qualifications, on an employee whom the bank wishes to assume the duties of a municipal securities principal or representative. The FR MSD-5 is the source document for updating the information when an associated person's employment is terminated for any reason; it collects the date of, and reason for, termination of such an employee. Both reports are event generated.

Generally, Form MSD-4 requires information on employment history and professional background, including any disciplinary sanctions and any claim basis for exemption from MSRB examination requirements. In addition, the form solicits personal information that most people would include on a resume. Form MSD-5 requires much less personal information and requires disclosure of the reason for termination and whether any investigations or actions by agencies or SROs involving the associated person occurred during the period of employment. Bank municipal securities dealers must retain exact copies of Form MSD-4 for each associated person during the entire term of employment and both Form MSD-4 and Form MSD-5 for three years from the date of termination of employment.

The MSRB Rule G-7 requires the employee to furnish the information and the bank to collect and report the information. Currently, there are twenty-six banks registered as municipal securities dealers. Any state member bank registering as a municipal securities dealer in the future will be required to file these event-generated forms for its employees.

Time Schedule for Information Collection

MSRB rule G-7 requires filing Form MSD-4 prior to permitting a person to be associated with a municipal securities dealer. Further, a bank is required to file Form MSD-5 within thirty days after a principal or representative terminates association with the municipal securities dealer. Completed forms are sent directly to the Federal Reserve Board's Division of Banking Supervision and Regulation. The information collected on Forms MSD-4 and MSD-5 is not published, nor is it otherwise available to the public.

Legal Status

The Board's Legal Division has determined that 15 U.S.C. §§ 78o-4, 78q and 78w authorizes the Board to require these reports. Individual respondent data are regarded as confidential under the Freedom of Information Act [5 U.S.C. §552(b)(6)].

The collection of these data has generated a system of records within the meaning of the Privacy Act (5 U.S.C. § 552a(a)(5)). The Board has formally designated the system of records as required under the Privacy Act. (42 Fed. Reg. 16,854 (1977), reprinted in 3 Federal Reserve Regulatory Service 8-350). The Board may not, therefore, disclose the information collected in these reports, except in accordance with the provisions of the Privacy Act. This system of records was amended on August 10, 1987, to include information prescribed on Forms G-FIN-4

and G-FIN-5. As there will be no change in the information collected in Forms MSD-4 and MSD-5, there is no need to amend this system of records.

Consultation Outside the Agency

The Federal Reserve has consulted with staff members of the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation to ensure uniformity of the reporting forms.

Estimate of Respondent Burden

The Federal Reserve estimated that Form MSD-4 takes one hour to complete and that Form MSD-5 takes fifteen minutes. The Federal Reserve used the actual number of forms filed during 2002 by banks registered as dealers to estimate the burden. Because respondents are required to retain these forms during the employee's tenure and for three years after termination of employment, the estimated total annual burden of these information collections includes both reporting and recordkeeping burden. The total annual burden represents less than 1 percent of total annual Federal Reserve System burden.

	<i>Estimated number of responses</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FR MSD-4	30	1	1.00	30
FR MSD-5	70	1	15 minutes	<u>18</u>
<i>Total</i>				48

Based on an hourly rate of \$20, the annual cost to the public is estimated to be \$960.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

The cost to the Federal Reserve System, including processing, printing, and mailing, is negligible.